

FISCAL NOTES

JANUARY REVENUE (IN MILLIONS): SALES TAX: \$1,661.4 OIL PRODUCTION: \$84.6 NATURAL GAS: \$70.0 MOTOR FUELS: \$251.1 MOTOR VEHICLE SALES: \$195.4 TOBACCO: \$94.1

Switching Tracks

*Can Texas Ease its Traffic Woes
with Rail?* **SEE PAGE 8**



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LETTER FROM THE COMPTROLLER

Innovation can occur anywhere: a lab, the office cubicle, a dorm room or a garage.

I first learned about the wonder of innovation from my grandfather, David L. Keiser. He had a garage full of stuff, and he never stopped thinking about inventing and refining.

I'd like to think that my grandfather's spirit infuses me, as a public official, to innovate.

He held many patents. As a young woman, I helped him apply for a Canadian patent by translating rules that were written in French. (I was a French and religion major in college, but that's another story.)

Perhaps his most significant innovation was improving the connection between rail cars. It reduced the wear and tear on the machinery and gave passengers a more enjoyable experience.

He ended up as vice president of the Texas Mexican Railway Company.

I also married an innovator.

My husband, a co-founder of VTEL Corporation, helped develop videoconferencing technology, among other things.

That's why I found this issue of *Fiscal Notes* so interesting. Our story on technology trends looks at where innovation may take us — and quickly — in the future.

But you also can find other examples of innovation in this issue: an airplane company adapting its crop dusters to other uses; cotton growers rediscovering organic methods; and Texans wrestling with how to move our burgeoning population around the state.

My grandfather would be pleased — but probably not surprised — to see that trains could play a growing role in our transportation system.

I'd like to think my grandfather's spirit infuses me, as a public official, to innovate — to make government more effective, more efficient and more responsive.

That would be more popular than a better mousetrap!



ACROSS TEXAS

➤ **Samsung Electronics** is spending \$500 million on a major renovation of its chip manufacturing complex in Northeast Austin. The project has employed more than 1,000 construction workers.

➤ **Galveston County** has begun a \$102.7 million buyout program that will remove homes damaged by Hurricane Ike and convert the properties into open green space.

➤ In February, **Methodist Health System** opened the 65,000-square-foot Methodist McKinney Hospital in McKinney, north of Dallas.

➤ **Allstate Insurance Co.** has announced plans to open a bilingual customer information center in San Antonio that will employ 600.

➤ Houston's **Griffin Partners** has begun building 73,000 square feet of retail space at Nassau Bay Town Square, just south of the Johnson Space Center.

➤ **Kroger Co.** will build a 123,000-square-foot Kroger Marketplace superstore in Mansfield, with an expected opening in summer 2011.

➤ Garment companies **Powers Creations** of Waco and **QTI** of nearby Robinson are merging into **QTI-Powers Inc.** The new business expects to produce about 1.8 million items annually.



Texas' personal bankruptcy rates are among the nation's lowest. For a look at the reasons why, visit us online at www.fiscalnotes.com.

Texas ranks third in the nation for friendliness toward small business, and activity in retail, high-tech manufacturing and staffing services is on the rise. Learn more at www.fiscalnotes.com.

King Cotton Goes All Natural

by Clint Shields

Texas Cotton Farmers Create New Market

A contingent of Texas cotton growers has gotten back to growing it the old-fashioned way, in a sense. They still use mechanized implements for planting and harvesting, but in between it's just water, Mother Nature and pitched battles against weeds and insects.

Organic cotton is good for the environment and covers more acreage on the Texas High Plains than ever before, says Jimmy Wedel, president of the Texas Organic Cotton Marketing Cooperative (TOCMC) and an organic cotton grower himself.

Formed in 1993, the co-op's members farmed about 3,000 acres its first year. Today, about 40 members are growing about 10,000 acres of organic cotton. Co-op members produced an estimated 11,200 bales in 2009, about 85 percent of the nation's organic cotton crop.

"We've had some ups and downs along the way, but that's one reason we formed the co-op, to help establish a market for organic cotton," Wedel says.

U.S. cotton once supplied about three-fourths of the world's demand and helped fuel textile mills here and abroad during the industrial revolution. American market share isn't what it was in the 1800s; we supply about 16 percent of world demand today. But Texas is the nation's largest cotton producer by far. The 4.9 million bales our farmers produced in 2008 accounted for about 40 percent of the U.S. total.

Organic cotton commands a higher price, Wedel says — typically about 40 cents per pound more than conventional cotton. And organic cottonseed

fetches a higher price as well. Organic dairy farms use the high-protein seed as cattle feed.

GOING CHEMICAL-FREE

Federal law regulates the use of the organic designation for cotton, Wedel says, and state and private inspectors certify the designation in Texas. Going organic demands not only meticulous record-keeping and crop rotation — by law, organic cotton crops cannot be grown back to back on the same land without a crop in between — but also greater expense and greater risks.

"One of the most difficult aspects of organic cotton farming is labor," Wedel says. "We cultivate more, plow more and have to hire more employees than a conventional operation of the same size. And the further you go north into the

Panhandle, finding crews to hoe fields in the summer... there just aren't as many crews."

As the name suggests, organic cotton is grown without the aid of chemical pesticides or fertilizers, and its seed cannot be genetically altered.

"Before you can be certified, you have to be chemical-free on that land for three years, and you have to grow on it for two years and get a conventional price," Wedel says. "You have to get over that sort of addiction to chemicals."

"We grew up with chemicals to control pests and weeds, believing that's the only way to do it," he says. "You pick up a farming magazine and on every other page, there's an ad for a chemical to put on your crop." **FN**

To learn more about the Texas Organic Cotton Marketing Cooperative, visit us online at www.fiscalnotes.com.

More information on the Texas Organic Cotton Marketing Cooperative and organic cotton growing is available at www.texasorganic.com.

"We have to hire more employees than a conventional operation of the same size."

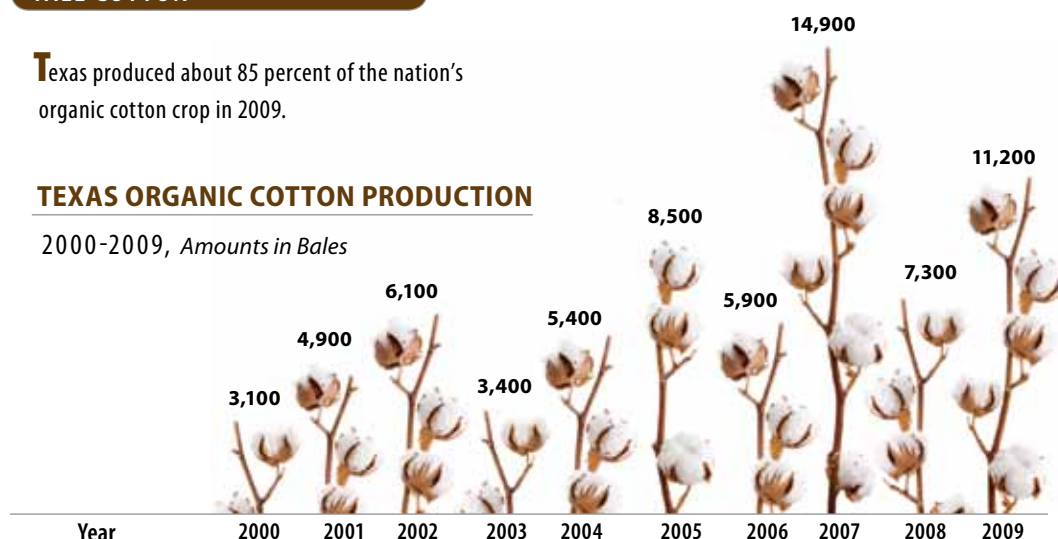
— Jimmy Wedel, President,
Texas Organic Cotton
Marketing Cooperative

TALL COTTON

Texas produced about 85 percent of the nation's organic cotton crop in 2009.

TEXAS ORGANIC COTTON PRODUCTION

2000-2009, Amounts in Bales



To see a complete comparison of the U.S. and Texas cotton crops, go to www.fiscalnotes.com.

On Hold: The Slump in Commercial Real Estate

by Bruce Wright



WEATHERING THE STORM: A SERIES OF REPORTS ON THE TEXAS ECONOMIC CLIMATE

To see our entire series of "Weathering the Storm" articles,
visit www.fiscalnotes.com.

It hasn't attracted as much attention as the nationwide collapse in residential real estate, but the market for commercial buildings is hurting every bit as much. Prices have plunged since the recession began, and a lack of available credit has brought commercial activity almost to a standstill in many areas.

To examine commercial real estate trends and get an idea of what lies ahead for Texas, *Fiscal Notes* recently spoke with Mark Dotzour, chief economist for the Real Estate Center at Texas A&M University.

FN: Perhaps we could begin with a brief recap of the national situation in commercial real estate.

MD: The problem with commercial real estate is largely one thing — prices went crazy in 2006 and 2007. Some people just lost all sense of reality. The prices were not justifiable at the time, and they weren't sustainable.

Today, based on two or three different indicators, it looks like commercial prices have fallen somewhere between 35 and 40 percent overall since the 2007 peak.

FN: And the problem is the same as for people whose homes are "under water," right?

MD: Yes. Many commercial real estate loans made during the peak period are under water, and will represent a loss at some point in time. The bottom line is that most people who bought a property at the peak will have a hard time refinancing their loans in the future. And it *also* means that banks that made those loans probably have a big loss on their hands.

FN: How much of a problem is this for the banking industry?

MD: To me, perhaps the clearest indicator that the problem is severe is the fact that the banking system has gone out of its way to change its accounting rules to, as they say, kick the can down the road, rather than recognizing the losses they have on their books.

But those banks are damaged. We had about 180 banks fail in the U.S. in 2009. My guess is that we'll see another 400 or 500 fail in 2010, largely due to difficulties related to commercial real estate loans.

FN: Who looks to be hit hardest?

MD: The big pressure is going to be felt in the regional and community banks. When GMAC and other companies were offering car loans with zero-percent interest, banks didn't make many car loans. And with Wall Street making most of the mortgage loans, banks didn't do many of those either. So the only things that were left were loans to local businesses and commercial real estate loans.

FN: What about the role of federal regulation?

MD: That's another issue. When these banks get heavy losses in their real estate loans, the federal Office of the Comptroller of the Currency, or OCC, starts putting pressure on them.

And when the regulator walks into your bank and says "You're not going to make another real estate loan," it doesn't matter if it's a good one or a bad one — you're not going to make a good one either. The OCC has created an environment where banks are afraid to make many real estate loans, good or otherwise.

FN: So federal regulation is actually discouraging lending?

MD: Back in July 2007, one Texas firm bought some toxic assets from Merrill Lynch and CIT Group for about 25 cents on the dollar. As soon as that happened, I thought, "Man, the market's going to clear and we're going to be off to the races" — but the Federal Reserve said they weren't going to allow that to happen again. They called those prices "fire-sale" prices.

It's an example of how the federal government has precluded the private market from clearing. And when the private market doesn't clear, nobody buys and nobody sells. The whole thing comes to a standstill — and that's where we've been since July 2007.

FN: Why would they pursue these policies?

MD: Everyone knows the losses are there. But the losses are big enough that the government can't afford to take them all at once. So that's why they're extending and prolonging the process, to spread the losses over a period of years, rather than to take them all and move on.

But I'm worried that the banks are going to get risk-averse, not just for commercial real estate loans, but for small business loans — and small business is where our job growth comes from

at the end of any recession. That's called entrepreneurship, and that's what we do in America. But we need credit to do that. Right now, banks are pulling in credit rather than extending it.

FN: The "credit crunch."

MD: Right, we still have a credit crunch in this country, but it's at a different level from where it was a year ago. Then it was the biggest banks — now it's at the regional and community banks, which are under duress from commercial real estate loans, and may become averse to making small business loans.

And when the banks aren't making loans, that's what can retard the recovery. That's the bigger risk. Without credit to small businesses, the recovery is going to be postponed.

This whole idea of kicking the can down the road, of extending and pretending on loans, is helping to reduce the number of bank failures, but I'm not sure it's helping the economy very much.

FN: Well, what happens next? What can get commercial real estate moving again?

MD: These bad loans need to be called, and the properties foreclosed and sold to somebody new, at a lower price. That's basic free-market economics.

Any improvement in commercial real estate will depend on putting tenants in buildings, and that's a function of job growth. Everyone's sitting on hold now, until the economy starts generating jobs.

Generally, when corporate profits start to pick up, businesses become more likely to hire workers, and corporate profits have started to pick up over the last six months. I think, though, that we won't see much hiring nationally until 2011. Until then, it's a jobless recovery.



"Prices went crazy in 2006 and 2007. Some people just lost all sense of reality."

— Mark Dotzour, Chief Economist,
Texas A&M University
Real Estate Center

Say you're a businessperson who's laid off a bunch of people, and your sales start to pick up and your profits go up pretty dramatically. But you're not certain it's going to continue, so you just work the people you have harder. So that's the "recovery" so far — profits are up, the stock market goes up, but hiring doesn't. That's what I expect to see in 2010.

FN: What do you see ahead for Texas?

MD: Texas will start generating jobs before the rest of the country, I'm pretty confident. As long as oil stays north of \$60 and gas stays north of four or five bucks we'll rebound quicker than the rest of the country.

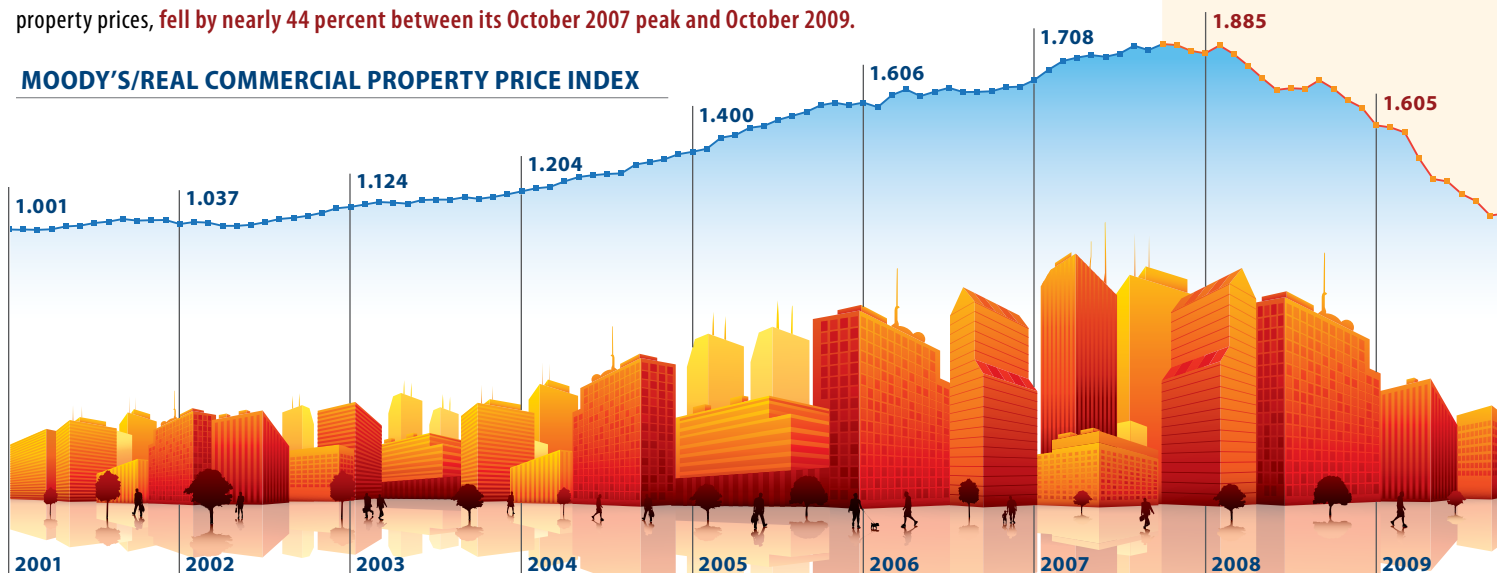
The fundamentals of commercial real estate in Texas are pretty good. The credit markets seized up in the summer of 2007, before we got into the full swing of an overbuilding cycle in Texas. That kind of stopped us, and it was a real blessing, because it relieved us from the traditional oversupply you get at the top of a cycle. So rents won't have to fall as far, because there's not a whole bunch of empty buildings sitting around, scrambling for tenants. **FN**

For information about commercial real estate developments in Texas, visit the Texas A&M University Real Estate Center's online newsletter at <http://recenter.tamu.edu/recon>.

LONG CLIMB, STEEP FALL

After years of steady increases in U.S. commercial property values, prices have plunged sharply during the recession. The Moody's/REAL Commercial Property Price Index, a widely used measure of average commercial property prices, **fell by nearly 44 percent between its October 2007 peak and October 2009.**

MOODY'S/REAL COMMERCIAL PROPERTY PRICE INDEX



Technology Tomorrow

by Michael Castellon

New Tech Likely to Drive Texas Industries in 2010

The turn of the 21st century: in terms of technology, it seems like a lifetime ago, doesn't it?

Ten years ago, most modems squealed and hissed for seconds that seemed like an eternity, before connecting us to a much smaller Internet that still felt limitless. Perhaps for the first time since the moon landing, many of us truly felt that we were living in the future. And unlike Apollo, this advancement in technology and culture was open to anyone with the price of a PC.

Just a decade later, much of that future seems Paleolithic. Our modems don't hiss any more, and they can deliver gigabytes of streaming video and data. Our cars contain devices that guide us by satellite. CDs are headed the way of the eight-track; our music collections are electronic files and the devices that play them contain telephones and computer applications. Google, Blackberry, Bluetooth, net-book, Wiki — the list of tech widely adopted over the past decade would have read like a baffling foreign language only a few years ago.

"Any product or service that meets the serious needs of the large retiring boomer population will attract attention."

— Robert Robb,
Director of the Venture Development
Institute for Innovation and Entrepreneurship



Today, innovation is moving even faster, creating products, tools and technologies that can make life easier, longer and better connected. And innovation has been a major Texas export at least since 1958, when Texas Instruments engineer Jack Kilby invented the integrated circuit. A few decades later, Michael Dell took a personal computer business from an Austin dorm room to worldwide operations that ship about 140,000 PCs each day.

What's next for a state that produces so much revolutionary innovation and intellectual property?

ON THE HORIZON

Jim Nolen is a lecturer at the University of Texas McCombs School of Business and an expert in business valuation and entrepreneurship. According to Nolen, Texas venture capitalists (VCs) traditionally have focused on the semiconductor, software, telecommunications and energy industries. In the future,

Texas VCs are likely to leverage their expertise in these sectors by concentrating on semiconductor research and design, wireless communications and alternative energy.

“Software trends will probably migrate from business software to social networking and virtualization software,” he says, referring to technologies that work with tools such as Facebook and Twitter, and that run on computers with multiple operating systems. New media will continue to attract attention as well.

And while going green is popular and can be profitable, Nolen warns that investment dollars can be hard to come by.

“Everyone is predicting that ‘clean tech’ and biotech will be hot sectors, but unfortunately, these industries are very capital intensive, as opposed to software, which is much more capital efficient,” he says. “Clean energy and biotech both have long investment horizons” — or in basic terms, a long wait for the anticipated payoff.

Consumer electronics and wireless devices might make a comeback, “depending on the success of Apple’s tablet PC and advances in smart phones and 4G networks,” Nolen says. Health care and medical device technologies are still strong due largely to aging baby boomers — but federal health care reform efforts have created an uncertain outlook.

The aging boomer population will continue to spur technologies that assist them, says Robert Robb, director of the Venture Development Institute for Innovation and Entrepreneurship (IIE) at the University of Texas at Dallas (UTD).

“There will be continuing interest in health and wellness technologies, products and services, from new medical devices to smarter medical telemetry for the growing senior population,” Robb says, “especially if such products are fairly close to entering the market and can be developed at a reasonable cost. Any product or service that broadly meets the serious needs of the large, retiring boomer population will attract attention.”

HOT IN 2010?

Robert Robb, director of IIE, says to look for advances in:

- energy storage and battery technologies
- smart mobile-device technology and mobile applications, including ancillary devices
- water and waste cleanup technologies

That’s good news for the Texas economy. According to the April 2009 *Texas Biotechnology Industry Report* published by the Texas Governor’s Office, Texas is among the 10 leading states in its number of biotechnology companies and its number of life and physical scientists.

Texas is home to more than a thousand biotech, biomedical research, business and medical manufacturing companies that will play a major role in generating medical and wellness technology and research.

THE ENTREPRENEURIAL SPIRIT

Innovation takes initiative. Behind new ideas are the people who drive them from concept to the market. That’s a focus not lost on Texas academic programs.

Recently, the shaky economy has driven some adventuresome, talented Texans out of the workplace and into academic programs that will train them to be industry pioneers.

One such program, UTD’s IIE, has met with considerable success. The IIE academic program, associated with the School of Management at UTD, includes 13 graduate courses and three undergraduate courses.

“Over the past four years, student enrollments have grown at a compound

annual rate in excess of 43 percent,” Robb says. “Three new faculty members have been added recently to accommodate a [program] enrollment that is approaching 1,100 students annually.

“The vast majority of MBA students enrolled in the foundational IIE course I teach want to be entrepreneurs,” Robb says. “That course alone typically has 30 to 45 students enrolled each semester, including summer.”

UTD’s School of Management recently announced the creation of a Master of Science and Innovation (MSIE) program. The MSIE program addresses traditional entrepreneurs as well as “intrapreneurs” — those who lead the development of new products and technologies within more mature organizations.

“This dual emphasis, and a consistent focus on technology-based innovation, differentiate the UTD program from those other Texas universities offer,” says Joseph C. Picken, IIE executive director. **FN**

SPEAKING OF INNOVATION ...

Our *Texas Innovator* newsletter gives you the latest in technology, innovation and startup news in Texas and around the world.

We recently streamlined *Texas Innovator* to provide you with more timely technology news affecting our state, integrating social media bookmarks and sharing, RSS and more. Check us out at www.texasinnovator.org.



Switching Tracks

by Gerard MacCrossan

Can Texas Ease its Traffic Woes with Rail?

Texas is growing fast — and growth has made traffic congestion a fact of life on our roadways.

The state's population is rapidly approaching 25 million and will almost double in the next half-century. Existing roads can only be widened so far, and planning new ones is an expensive and controversial proposition.

So the Texas Legislature has told state transportation officials to look hard at an old solution: rail.

By the time the 2011 Legislature meets, the Texas Department of Transportation's (TxDOT's) new Rail Division should have a plan for how passenger and freight rail can fit in the state's future.

"Rail is enjoying a renaissance, not only in the state of Texas but throughout the nation, as an energy-efficient way to move freight and passengers," says Rail Division Director Bill Glavin.

Texas has more than 12,000 miles of rail lines, but today only a handful of trains here carry passengers, and those aren't exactly rapid transit. The single daily Amtrak train between

San Antonio and Austin, for instance, needs several hours to make a trip that takes 90 minutes by car.

But clogged freeways may lead to better days for passenger rail.

"In the past 20 years, we've seen what has happened with our commutes," Glavin says. "We have built the easy, additional capacity to relieve that congestion. We've got to come up with another solution to preserve the air quality and quality of life for Texas citizens."

TODAY'S PASSENGER RAIL...

Rail travel is already a daily reality for thousands in the Dallas-Fort Worth region, where the 35-mile Trinity Railway Express (TRE) diesel commuter service links Dallas with Fort Worth, and 45 miles of Dallas Area Rapid Transit (DART) electric light rail lines connect stations within the region. About 75

To attract high-speed rail funding, Texas needs a unified rail plan supported by officials from all levels of government.

percent of DART and TRE's passengers are traveling to or from work, says spokesman Morgan Lyons.

"Ridership on light rail averages 65,000 to 70,000 on weekdays, and TRE is between 8,000 and 10,000," he says.

The light-rail passenger load is expected to grow when a current project to double DART's track length is completed by 2014.

Taxpayers foot most of the bill for DART. In 1983, voters approved dedicating 1 cent of Dallas' and some other area cities' sales tax to fund the transit system, which also includes bus lines and high-occupancy highway lanes. Only 15 percent of DART's \$402 million budget for fiscal 2010 comes from rider fares, which start at \$1.75 for a single ride, Lyons says.

...AND TOMORROW'S

To provide a viable alternative to air or highway travel, rail has to have a niche, Glavin says.

A formula used by European planners dictates that rail should cost half of the "premium" mode of travel and deliver at least twice the speed of the "less-desirable" mode. Using Austin



Karen Rae
Deputy Administrator,
Federal Railroad
Administration

to Dallas as an example, he says air would be the premium mode and road travel the less desirable option. At the right price, a two-hour trip by high-speed rail could be an attractive alternative for travelers.

Federal Railroad Administration Deputy Administrator Karen Rae told a Texas audience in January that rail has been given a higher profile in national transportation planning, thanks to the October 2008 passage of the federal Passenger Rail Infrastructure Investment Act, as well as \$8 billion in federal stimulus funding reserved for high-speed rail. Speaking at the fifth annual Texas Transportation Forum in Austin, Rae said the federal government is creating a national rail plan along with a national transportation plan that addresses the needs of all transportation modes.

"We want to hear from states and regions," she said. "Putting rail on a level playing field as we design the network for the future is the purpose of this new initiative."

In fall 2009, Texas submitted a \$1.8 billion "wish list" for high-speed rail stimulus funding. By far the largest project on Texas' list was a 220 mph high-speed intercity rail connection dubbed the Texas T-Bone, which would run north-south connecting Fort Worth and San Antonio and east-west from Houston to Temple.

"If you are talking true high speed,

"Rail is enjoying a renaissance as an energy-efficient way to move freight and passengers."

— Bill Glavin, Rail Division Director,
Texas Department of Transportation





then you are talking about completely separated, brand-new railroad,” Glavin says. “For anything faster than 110 mph, we need new lines.”

Texas didn’t get any of the \$1.7 billion it requested for the T-Bone, which in any case represented only a fraction of the money needed to develop a high-speed rail infrastructure. The state did receive \$4 million to fund crossing signal timing adjustments that would permit the Amtrak Heartland Flyer to increase its speed from 49 to 79 mph in Texas. (It already travels at 79 mph in Oklahoma.) Another item on Texas’ wish list, \$7 million to lay additional TRE track, received funding from the fiscal 2009 federal appropriations bill.

According to state rail officials, to attract significant high-speed rail funding, Texas needs a unified rail plan supported by officials from all levels of government. Many other states, including those that received the rail stimulus funds, are far ahead of Texas in this process.

“The efforts under way by TxDOT’s Rail Division to revise the statewide Rail Plan will help better position Texas for success in future funding opportunities,” Glavin says.

UNCLOGGING THE CORRIDORS

While it would take many years for a high-speed express line like the T-Bone to become a reality, the Lone Star Rail District (LSTAR) is being touted as a viable passenger service as early as 2013. Proponents want to use an existing Union Pacific (UP) freight route connecting San Antonio and Georgetown, with about 15 stops for commuters to hop on a train. UP freight traffic would be diverted to other rail lines still to be built.

Ross Milloy, president of the Greater Austin-San Antonio Corridor Council and LSTAR’s interim executive director, says relocating the UP line and adding passenger rail makes sense for drivers, rail passengers and freight movers alike — especially because of anticipated

DARTING ACROSS THE METROPLEX

Dallas Area Rapid Transit started its light rail service in 1996 with an 11-mile track and has expanded several times to its current operating service on 45 miles of track. An additional 45 miles of track should be in service by 2013, doubling the number of passengers carried annually.

DART PASSENGER VOLUME, 1996 – 2008

YEAR	TOTAL PASSENGERS	LENGTH OF SYSTEM	YEAR	TOTAL PASSENGERS	LENGTH OF SYSTEM
1996*	1.29 million	11 miles	2003	16.97 million	44 miles
1997	7.97 million	20 miles	2004	16.49 million	
1998	10.94 million		2005	17.48 million	45 miles
1999	11.34 million		2006	18.58 million	
2000	11.43 million		2007	17.90 million	
2001	11.51 million		2008	19.40 million	
2002	13.73 million		2009	18.96 million	

*Opened June 14, 1996.

Source: Dallas Area Rapid Transit

increases in traffic prompted by North American Free Trade Agreement (NAFTA) business.

Preserving I-35’s capacity is one of Milloy’s arguments for creating the LSTAR passenger rail line. According to him, 80 percent of Mexico’s annual \$900 billion NAFTA trade with the United States and Canada comes through Texas; three-quarters of that is trucked up the Interstate 35 corridor.

TxDOT studies estimate NAFTA truck miles in Texas will quintuple in the next 30 years, he says.

Milloy says the state’s Texas Rail Relocation and Improvement Fund, which received \$182 million in appropriations from the 2009 Legislature, could be used to start relocating UP’s freight operations, although he says the ultimate cost could be \$1.7 billion.

CONTINUED ON PAGE 11

MAJOR PLAYERS IN FREIGHT

Three freight rail operators own most of the 12,000 miles of track in Texas and transport millions of carloads annually to and from the state.



TEXAS RAIL LINE STATISTICS, 2008	UNION PACIFIC	BURLINGTON NORTHERN SANTA FE	KANSAS CITY SOUTHERN
Miles of Track	6,331	2,556 (plus 2,353 miles trackage rights)*	547 (plus 216 miles of trackage rights)*
Annual Payroll in Texas (In Millions)	\$654	\$786	\$29.6
Texas Employees	8,019	7,535	441
Originating Rail Cars**	1,233,444	727,202	155,868
Terminating Rail Cars***	1,231,879	1,383,751	325,749

* Trackage rights: permission to use track owned by another line.

** Shipments originating in Texas.

*** Shipments ending in Texas.

Source: the Union Pacific, Burlington Northern Santa Fe and Kansas City Southern companies

Air Tractor Plows Into Global Markets

by David Bloom

Profiling a Trailblazer in International Trade

Texas is a leading exporter and a major hub for global trade. But it's not all about giant multinationals.

Glance up in the rural Texas skies on a spring day, and you just may see one of the thousands of crop-dusting aircraft that Air Tractor Inc. has built since the early 1970s. But today, Air Tractor has its eyes on horizons beyond the Texas plains. The company is bucking the headwinds of a turbulent economy to bring jobs and opportunity to the small town of Olney, Texas.

Aircraft have been built in Olney since the late 1950s, when aviation pioneer Leland Snow chose the town as the production site for his first company, Snow Aeronautics. This company eventually was sold to Rockwell-Standard, which soon moved its facilities to Georgia. Snow opted to stay in Texas and went on to found Air Tractor.

An ever-advancing line of Air Tractors — from 1973's AT-300 single-seat plane, with a radial piston engine, to today's popular turboprop AT-802 — have been rolling off the Olney assembly line ever since.

As its aircraft have evolved, so too has Air Tractor's customer base. In addition to its agricultural uses, the AT-802 is an effective firefighting plane and drug eradication tool, used by agencies and governments around the world.

David Ickert, vice president of Finance for Air Tractor, says the company turned to the U.S. Export-Import Bank to provide its international customers with medium-term financing that wasn't available in their countries.

Often, he notes, U.S.-based financial institutions are reluctant to lend to small businesses against foreign sales. The Export-Import Bank, however, provides credit insurance on financing provided to international customers, an advantage that has helped Air Tractor steadily increase its global reach.

In 1995, Air Tractor employed 100 people and relied on international sales for 10 to 15 percent of its business. By 2009, its work force had doubled and nearly half of its customers were outside the U.S.

"Today, 90 Air Tractor employees owe their jobs to exports," says Ickert. And an export-related job at Air Tractor has a ripple effect in job creation, he notes.

"The airframe of an Air Tractor assembled in Olney is made with 100 percent U.S. parts," Ickert says, "and we purchase aluminum, steel, brakes and various other components from suppliers throughout the Dallas-Fort

Worth Metroplex and all over the United States."

Those export-related job numbers may grow soon. In May 2009, Air Tractor debuted an

armored and weaponized version of the AT-802 — the AT-802U — at the Paris (France) Air

Show. This new plane can provide the U.S. military and other national air forces with a low-cost counterinsurgency, surveillance and reconnaissance option.

Like the much more expensive and complex drones or UAVs (unmanned aerial vehicles), the Air Tractor can



"Today, 90 Air Tractor employees
owe their jobs to exports."

— David Ickert
Vice President of Finance
Air Tractor

Photos courtesy of Air Tractor

provide serious “hang time” over targets, increasing mission capabilities and success rates. In an AT-802U, its pilot can remain in a target area for as long as 10 hours.

Lee Jackson, design engineer at Air Tractor, says “The AT-802U offers ruggedness, simplicity and performance. It’s amazingly resilient and offers twice the capability at half the cost.”

Jackson also notes that current U.S. fighter aircraft are expending their service lives quickly in the tough desert environments of Iraq and Afghanistan, while performing missions that less expensive aircraft could handle. The simple but sturdy Air Tractor could be both an effective trainer and a “leave behind” for our allies who will continue the battle after anticipated U.S. troop withdrawals.

The exposure the prototype plane gained at the Paris Air Show has provided Air Tractor with new international dealers interested in selling its planes, and a significant increase in inquiries from potential customers.

Air Tractor is currently working with consultants to continue developing the AT-802U for military applications and to devise marketing plans for the product. “We’re really still in the early stages, but we believe there is a good market there, and we’re excited about the possibilities,” Ickert says. **FN**

For more information on Air Tractor, visit www.airtractor.com.



Do you know of a smaller Texas company that is making strides in cultivating international sales?

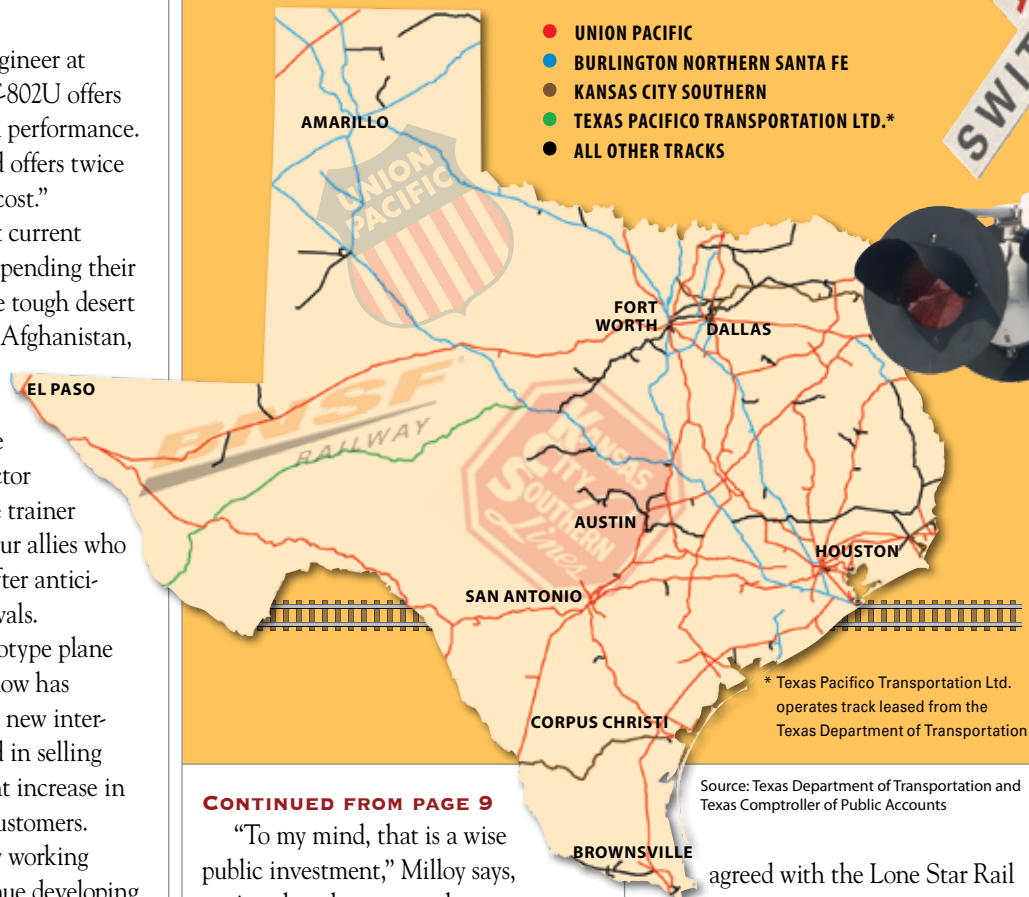
Let us know at

fiscal.notes@cpa.state.tx.us —

we might profile them in an upcoming issue.

FREIGHT RAIL NETWORK CONNECTS POPULATION CENTERS

Every day, tens of thousands of railcars travel around Texas on a track network owned largely by Union Pacific, Burlington Northern Santa Fe and Kansas City Southern.



CONTINUED FROM PAGE 9

“To my mind, that is a wise public investment,” Milloy says, noting that the proposed passenger corridor would pass through six of the fastest-growing cities in Texas.

LSTAR estimates that 11,000 people would ride the service daily. Milloy says a passenger rail line could increase personal income along the Interstate 35 corridor by \$20 billion, and increase property values tenfold in the quarter-mile around the proposed stations.

That would help the rail district and its partners pay for the service, which would probably employ tax increment reinvestment zones to pay for infrastructure. These zones are created to repay the costs of improvements with the increased tax revenue they generate.

The first stage is conducting environmental studies and preliminary engineering on the existing and relocation routes, Milloy says.

Spokeswoman Raquel Espinoza-Williams says UP, which operates more than half of Texas’ freight lines, “has

agreed with the Lone Star Rail District to study the feasibility of relocating through freight service to a new line to free up tracks for passenger rail.

“The Lone Star Rail District and its consultants are responsible for designing and locating a potential bypass to be built to Union Pacific specifications to mitigate lost capacity and utility on the existing corridor,” she says. **FN**

Learn more about Lone Star Rail District’s plans for commuter rail in the Interstate 35 corridor at www.lonestarrrail.com.

Dallas Area Rapid Transit is involved in the nation’s largest light-rail construction project. Learn more about the 45-mile expansion at www.dart.org/about/expansion/otherprojects.asp.

Learn more about the state of Texas’ transportation plans at www.dot.state.tx.us and www.keeptexasmoving.com.

Source: Texas Department of Transportation and Texas Comptroller of Public Accounts

Brief Bytes

by Editorial Staff

UNIVERSAL CITY GOES GREEN

Universal City, a San Antonio suburb with about 18,600 residents, has become Texas' first "Green Power Community" through a partnership with the Environmental Protection Agency (EPA). EPA's Green Power Community program recognizes cities in which the local government, business and residents collectively buy green power in amounts that meet or exceed EPA's Green Power Community purchase requirements.

Ten percent of the total electricity consumed in Universal City comes from wind energy. Universal City won its green designation by purchasing more than 3.6 million kilowatt-hours (kWh) of wind-generated electricity annually from CPS Energy's "Windtricity" program.

Several years ago, the city started looking to reduce its dependence on energy sources that affect the environment, says Universal City Mayor John Williams.

"When CPS Energy introduced its Windtricity program, the Universal City Council and staff eagerly embraced it and became a Windtricity partner," Williams says.



John Williams
Universal City Mayor

Collaborating with CPS Energy, the city launched a campaign to educate residents and businesses on the benefits of Windtricity. Eventually, 255 residents and seven businesses signed up for the program.

"I'm overwhelmed with the community's commitment to the purchase of renewable energy," says Williams. "It took less than one year to fulfill the requirements to become a Green Power Community. It is impressive to know that so many people understand the need for clean energy and can come together so quickly to make it a reality."

For a complete list of the nation's Green Power Communities or for information on how your city can become a Green Power Community, visit www.epa.gov/grmpower.

(Karen Hudgins)

HOME REPAIR HELP FOR IKE VICTIMS

Galveston County homeowners whose homes were destroyed or damaged by 2008's Hurricane Ike can apply for federal funds to rebuild through a nearly \$100 million program.

The U.S. Department of Housing and Urban Development (HUD) is providing the funds through Community Development Block Grants to be administered by the Galveston County Housing Recovery Program. The funds will cover repairs, rehabilitation and new construction for low- and moderate-income homeowners as defined by HUD.

Hurricane Ike struck the Texas coast near Galveston Sept. 13, 2008, causing an estimated \$13 billion in losses and resulting in about 815,000 insurance claims, according to the Texas Department of Insurance.

Galveston County has opened three intake centers in Bacliff, Galveston and Bolivar to help applicants apply for housing repair or rebuilding assistance. Information and applications are available online at www.co.galveston.tx.us/housingdept or by calling (877) 221-8215.

Residents of the city of Galveston can apply at www.galvestoncityrecovers.org.

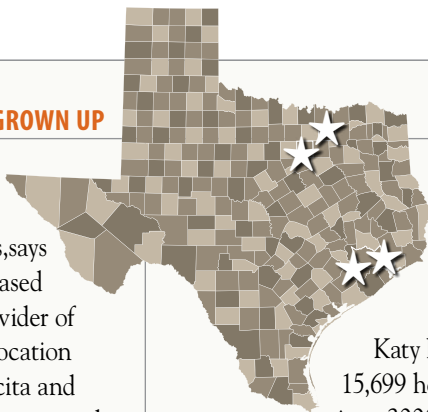
(Karen Hudgins)

ALL GROWN UP

Four Texas suburbs are among the nation's top nine high-growth areas, says the Little Rock, Ark.-based Gadberry Group, a provider of demographic and site location data. It ranked Atascocita and Katy, both near Houston, second and fifth respectively. Dallas-area suburbs Mansfield and Wylie ranked seventh and eighth.

The Gadberry Group uses census block groups to determine population growth. The areas include city limits and parts of the surrounding area. Katy, for instance, has a city population of about 14,000, but the area included in Gadberry's report includes about 60,000 people.

The list as a whole showed an average household growth of 170 percent from 2000 to 2009, compared with the 2008 list average of 267 percent. Since 2000, the number of Atascocita households has risen by 108 percent, from 11,475 to 23,917, while its average household income has grown from \$79,054 to \$99,272. Hispanic households in the community represented the fastest-growing segment of its population, at 278 percent.



Katy has added 15,699 households since 2000.

Katy Mayor Don Elder Jr. credits the energy sector and the medical industry for spurring growth. In addition to Memorial Hermann and Christus St. Catherine's, the city is adding the \$220 million Texas Children's Hospital West Campus and a \$300 million Methodist Hospital this year.

"Businesses like this corridor," Elder says of the city's location on Interstate 10, 30 miles west of downtown Houston. "We're still a community and people like that.

"Another thing that we have going for us is our schools," he says. The 181-square-mile school district serves about 60,000 students and has earned a reputation as an academic and athletic powerhouse.

To see the complete list of communities, visit www.gadberry.net.

(Tracey Lamphere)

HOLIDAY SURVEY RESULTS

For *Fiscal Notes* readers, the spirit of giving triumphed over economic worries last Christmas — but not by much!

In the December/January issue of *FN*, we asked you to fill out a quick online survey about your holiday spending. Sixty-eight of you responded, giving us a snapshot of how our readers managed their money during the biggest retail frenzy of the year.

Thirty-eight of the 68 who responded (nearly 56 percent) said they spent as much as or more than they did last year. Thirty spent less — or much less. Most who spent less cited the economy, limited funds and a desire to save money as their reasons.

The poll results also reflect the increasing popularity of online shopping, with 28 respondents (41 percent) making at least half of their Christmas purchases online. Six readers said they did 90 percent or more of their shopping online.

Unsurprisingly, many respondents used credit cards to make some holiday purchases. But more than three-quarters of those said they plan to pay the debt off immediately. And since charity begins at home, two-thirds of the respondents (46) said they took advantage of holiday sales or discounts to make non-gift purchases for themselves or their families.

As for the broader economy, views were modestly optimistic, with 27 (40 percent) seeing conditions as better than they were a year ago and 19 (28 percent) viewing them as worse.

(Bruce Wright)



SAVE THE DATE FOR REBATES

April could bring substantial rebates for Texans who replace certain older appliances with more energy-efficient models.



Texas has received more than \$23 million from the U.S. Department of Energy to establish an Energy Efficient Appliance Rebate Program, the first of its kind in the state. The Comptroller's State Energy Conservation Office will administer the program.

The mail-in rebates are for qualifying purchases made during April 16-25, 2010.

Participants must retire an older appliance to receive a mail-in rebate.

Refrigerators, freezers, clothes and dishwashers and water heaters are among the appliances eligible for a rebate. Texas is offering one of the nation's largest selections of eligible appliances.

Consumers will be able to reserve rebates in advance. Specific instructions, likely including a toll-free number and online reservations, will be made available closer to the program's launch date in April.

Sign up to receive up-to-date information on this program through the Comptroller's SECO stimulus Web site at www.secostimulus.org/rebate.

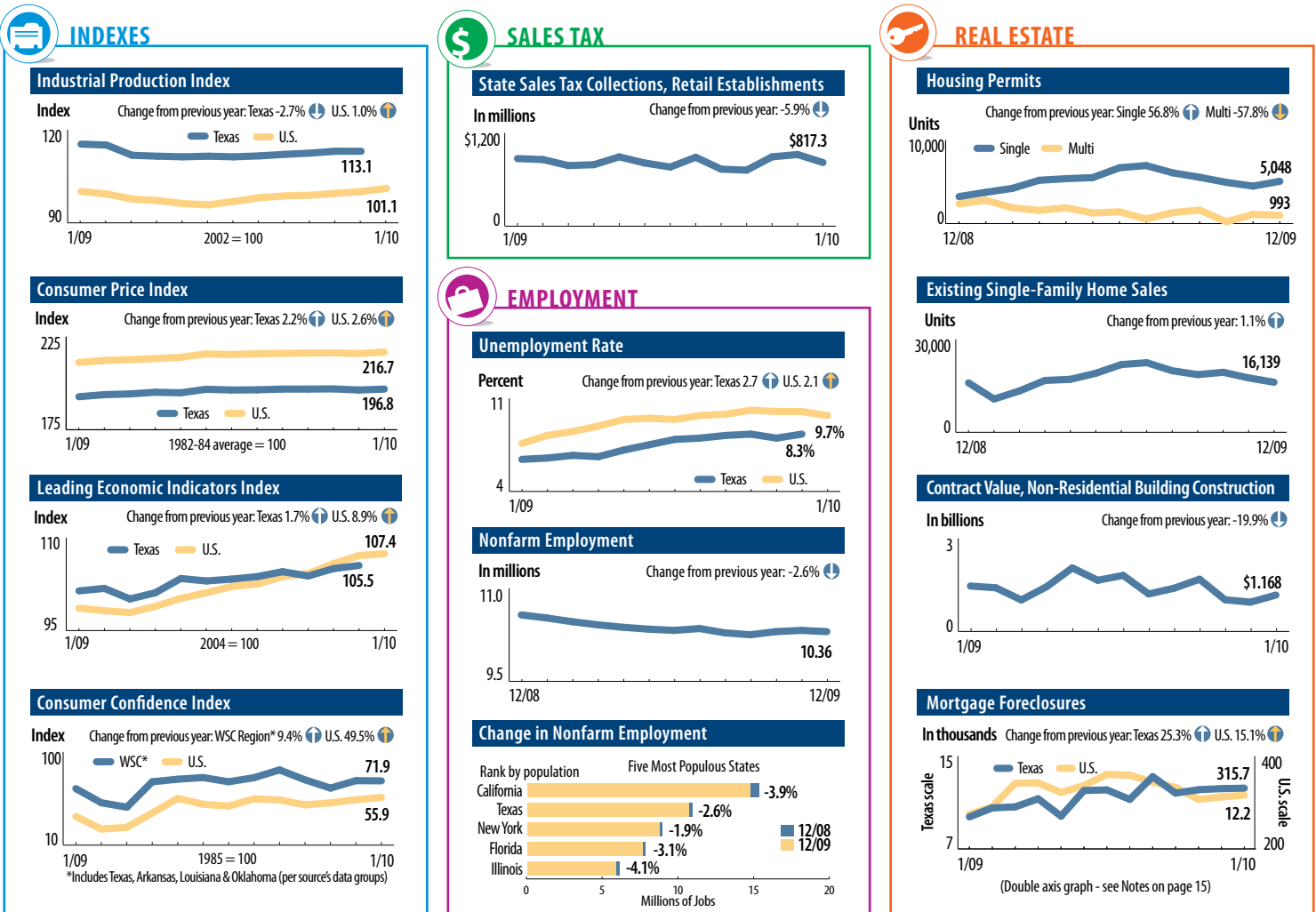
(Clint Shields)



Texas by the Numbers

For detailed statistics on the Texas economy, check the Comptroller's Web site at www.TexasAhead.org

Key Texas Economic Indicators - Between January 2009 and January 2010, the U.S. economy shed about 4.0 million jobs, a 3.0 percent decline. Texas lost 275,900 jobs between December 2008 and December 2009, a 2.6 percent decrease in nonfarm employment. In December 2009, 10.4 million Texans were employed, 23,900 fewer than in November. Over the last year, Texas added jobs in the educational and health services and government industries.



Texas Production and Consumption Indicators

DATE	Crude Oil Production	Natural Gas Production	Active Oil & Gas Drilling Rigs	Motor Fuels Taxed		Median Sale Price, Existing Single-family Home	Auto Sales	Cigarettes Taxed
	Value (MILLIONS)	Value (MILLIONS)	Units	Gasoline (MILLIONS OF GALLONS)	Diesel (MILLIONS OF GALLONS)	Dollars	Net Value (MILLIONS)	Packages of 20 (MILLIONS)
2006	\$19,657.5	\$19,852.1	746	11,372.8	3,731.6	\$143,100	\$45,756.2	1,280.2
2007	21,850.3	22,968.4	834	11,624.8	3,886.9	147,500	48,500.6	1,085.8
JAN-09	989.83	1,296.04	701	1,023.2	294.7	131,800	3,022.6	73.0
FEB-09	820.34	904.50	574	965.3	291.5	138,200	2,923.8	77.0
MAR-09	1,144.00	950.27	445	916.6	281.8	139,600	2,892.3	86.4
APR-09	1,258.41	874.98	393	1,019.0	305.7	142,700	2,501.8	77.5
MAY-09	1,498.57	918.57	347	989.9	289.8	149,300	2,591.1	77.8
JUN-09	1,733.84	1,003.92	329	1,026.3	291.9	155,000	3,111.4	82.7
JUL-09	1,637.61	1,048.06	342	1,013.6	293.2	153,300	3,071.0	85.6
AUG-09	1,809.81	1,027.07	366	1,025.9	297.6	149,900	3,111.0	126.7
SEPT-09	1,722.06	867.69	380	1,021.0	292.0	147,400	3,357.9	36.9
OCT-09	1,952.74	1,105.94	398	961.1	281.8	142,700	2,859.6	76.6
NOV-09	1,963.93	1,224.85	433	991.0	288.4	142,600	2,536.5	77.9
DEC-09	1,862.4		470	963.3	267.4	145,600	2,813.6	82.3
JAN-10			519	992.8	287.6			66.8

January Cash Condition¹

(Amounts in millions)	General Revenue	Other Funds	Total Cash
BEGINNING BALANCE JANUARY 1, 2010	\$3,626.9	\$19,557.7	\$23,184.6
Revenue/Expenditures			
Revenue	5,363.5	2,295.5	7,659.0
Expenditures	5,255.0	2,359.4	7,614.4
Net Income (outgo)	\$108.5	\$-63.9	\$44.6
Net Interfund Transfers and Investment Transactions	\$21.4	\$172.9	\$194.3
Total Transactions	129.9	109.0	238.9
END CASH BALANCE JANUARY 31, 2010²	\$3,756.8	\$19,666.7	\$23,423.5

¹ Cash stated is from the Comptroller's Uniform Statewide Accounting System (USAS) and will vary from the amounts reflected in the cash accounts of the Treasury Operations Division of the Comptroller's office due to timing differences. Net amounts shown (less refunds) exclude funds that are authorized to be held outside the State Treasury and are not processed through USAS. Suspense and Trust Funds are included, as are unemployment compensation trust funds collected by the state but held in the Federal Treasury. Totals may not add due to rounding.

² The ending General Revenue Fund balance includes \$5.6 billion derived from the sale of cash management notes.

State Revenue/All Funds¹

(Amounts in millions)	Monthly Revenue	Fiscal Year-to-Date January 2010	
	January 2010	Revenue	% Change YTD/YTD
TAX COLLECTIONS BY MAJOR TAX			
Sales Tax	\$1,661.4	\$8,020.5	-13.2%
Oil Production Tax	84.6	414.5	-13.9
Natural Gas Production Tax	70.0	129.8	-87.5
Motor Fuel Taxes	251.1	1,244.4	-1.8
Motor Vehicle Sales Tax	195.4	1,015.6	-10.7
Franchise Tax	-225.1	-150.3	7.8
Cigarette & Tobacco Taxes	94.1	522.2	-19.6
Alcoholic Beverages Tax	74.8	329.8	-0.8
Insurance Companies Tax	9.4	73.6	5.3
Utility Taxes ²	30.4	152.7	-12.4
Inheritance Tax	0.0	0.0	-99.8
Hotel/Motel Tax	21.1	125.2	-15.5
Other Taxes ³	39.0	169.1	-1.2
TOTAL TAX COLLECTIONS	\$2,306.3	\$12,047.0	-17.2%

REVENUE BY RECEIPT TYPE

Tax Collections	\$2,306.3	\$12,047.0	-17.2%
Federal Income	3,175.0	15,570.6	36.2
Interest and Investment Income	70.0	578.7	-26.2
Licenses, fees, permits, fines,	828.1	2,847.7	-3.7
Contributions to Employee Benefits	508.2	2,099.1	7.8
Sales of Goods and Services	22.7	144.9	-13.1
Land Income	51.8	273.8	-42.3
Net Lottery Proceeds ⁴	118.6	685.0	7.9
Other Revenue Sources	578.5	3,472.6	4.7
TOTAL NET REVENUE	\$7,659.0	\$37,719.4	4.0%

¹ Excludes revenues for funds that are authorized to be held outside the State Treasury and are not processed through USAS. Totals may not add due to rounding.

² Includes the utility, gas utility administration and public utility gross receipts taxes.

³ Includes the cement and sulphur taxes and other occupation and gross receipt taxes not separately identified.

⁴ Gross sales less retailer commissions and the smaller prizes paid by retailers.

NOTES:

Crude oil and natural gas figures are net taxable values. Gasoline gallons include gasoline. Auto sale values are calculated from motor vehicle taxes collected on new and used vehicle sales. All figures are seasonally adjusted, except for sales tax collections; rigs; consumer price; housing permits/sales/prices; and consumer confidence. Figures are based on the most recent available data. Annual figures are for calendar years. (a) Double axis graphs: Graphs with two vertical axes show values for Texas on the left and values for the U.S. on the right. This method shows trends more clearly over the last year when data values are substantially different at state and national levels.]

SOURCES:

KEY TEXAS ECONOMIC INDICATORS:

Consumer Price Index, Change in Nonfarm Employment: U.S. Bureau of Labor Statistics
Consumer Confidence Index: The Conference Board
Leading Economic Indicators Index: Texas Comptroller of Public Accounts, The Conference Board
Unemployment Rate: Texas Workforce Commission, U.S. Bureau of Labor Statistics
Nonfarm Employment: Texas Workforce Commission
State Sales Tax Collections, Retail Establishments: Texas Comptroller of Public Accounts
Housing Permits, Existing Single-family Home Sales: The Real Estate Center at Texas A&M University
Industrial Production Index: Federal Reserve Bank of Dallas

State Expenditures/All Funds¹

(Amounts in millions)	Monthly Expenditures	Fiscal Year-to-Date January 2010	
	January 2010	Expenditures	% Change YTD/YTD
BY OBJECT			
Salaries and Wages	\$898.2	\$4,562.5	2.6%
Employee Benefits/Teacher Retirement Contribution	808.8	4,059.7	10.9
Supplies and Materials	70.6	419.3	1.5
Other Expenditures	204.0	1,461.8	12.3
Public Assistance Payments	3,801.2	18,424.8	24.1
Intergovernmental Payments:			
Foundation School Program Grants	489.7	9,311.1	-23.2
Other Public Education Grants	1,032.2	2,653.6	29.5
Grants to Higher Education	14.9	522.1	-2.0
Other Grants	242.5	1,362.6	10.5
Travel	10.6	64.9	-8.0
Professional Services and Fees	78.4	908.5	11.0
Payment of Interest/Debt Service	82.0	391.9	8.5
Highway Construction and Maintenance	173.7	1,381.2	-22.6
Capital Outlay	39.1	236.1	17.8
Repairs and Maintenance	48.5	353.0	19.4
Communications and Utilities	36.7	202.8	18.2
Rentals and Leases	20.4	125.3	-1.8
Claims and Judgments	7.0	67.1	75.0
Cost of Goods Sold	42.0	197.3	-54.7
Printing and Reproduction	3.6	19.7	-11.7
TOTAL NET EXPENDITURES	\$7,614.4	\$46,725.4	4.3%

BY FUNCTION

General Government			
Executive	\$506.9	\$2,708.1	9.4%
Legislative	10.5	58.4	3.7
Judicial	25.7	112.0	12.8
Subtotal	543.1	2,878.5	9.5
Health and Human Services	3,690.1	17,954.1	24.1
Public Safety and Corrections	302.1	2,084.8	1.8
Transportation	351.2	2,531.5	-6.9
Natural Resources/Recreational Services	132.7	780.5	-22.9
Education	1,727.6	16,030.0	-10.3
Regulatory Agencies	22.0	170.2	1.6
Employee Benefits	699.0	3,496.8	11.5
Debt Service—Interest	82.0	391.9	8.5
Capital Outlay	39.1	236.1	17.8
Lottery Winnings Paid ²	25.6	171.0	-15.1
TOTAL NET EXPENDITURES	\$7,614.4	\$46,725.4	4.3%

¹ Excludes expenditures for funds that are authorized to be held outside the State Treasury and are not processed through USAS. Totals may not add due to rounding.

² Does not include payments made by retailers. Previously shown as "Other expenditures."

Some revenue and expenditure items have been reclassified, changing year-to-date totals. The ending cash balance is not affected because changes reflected in "total net revenues" and "total net expenditures" offset changes in "net interfund transfers and investments transactions" in the cash condition table.

Revenues and expenditures are reported for the most recent month available and as a running total for the current fiscal year-to-date. In addition, year-to-date figures are compared with the same period in the last fiscal year. These comparisons are reported as percentage changes, which may be positive or negative (shown by a minus sign).

Trust fund transactions are included within revenues and expenditures in the "all funds" presentations. Trust funds are not available to the state for general spending.

Susan Combs

TEXAS COMPTROLLER OF PUBLIC ACCOUNTS

Fiscal Notes is one of the ways the Comptroller's office strives to assist taxpayers and the people of Texas. The newsletter is a by-product of the Comptroller's constitutional responsibilities to monitor the state's economy and to estimate state government revenues.

Fiscal Notes also provides a periodic summary of the financial statements for the State of Texas.

Articles and analysis appearing in **Fiscal Notes** do not necessarily represent the policy or endorsement of the Texas Comptroller of Public Accounts. Space is devoted to a wide variety of topics of Texas interest and general government concern.

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A Review of the Texas Economy from the Office of Susan Combs, Texas Comptroller of Public Accounts

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Better Days Ahead?

The real estate investment and services company Grubb & Ellis predicts that Texas cities will be among the strongest markets for commercial real estate over the next several years.

STRONGEST COMMERCIAL REAL ESTATE MARKETS, 2010-2014

OFFICE PROPERTIES:

1. AUSTIN
2. Washington, D.C.
3. Los Angeles
4. Portland, OR
5. Raleigh-Durham, NC
6. HOUSTON
7. Orange County, CA
8. San Diego
9. San Francisco
10. Denver

RETAIL PROPERTIES:

1. Los Angeles
2. HOUSTON
3. DALLAS
4. Raleigh-Durham, NC
5. Atlanta
6. Washington, D.C.
7. AUSTIN
8. San Diego
9. Portland, OR
10. San Francisco

INDUSTRIAL PROPERTIES:

1. Los Angeles
2. HOUSTON
3. Atlanta
4. Oakland/East Bay, CA
5. Seattle
6. DALLAS
7. Chicago
8. Miami
9. Portland, OR
10. Philadelphia

Source: Grubb & Ellis Company